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Pricing Strategies for Business Procurement in Public Universities

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This study sought to identify competitive strategies used by privately owned business while competing for public tendering opportunities in Public Universities in Kenya. The study identified pricing as a strategy for creating a competitive increase while competing for tendering opportunities in Chartered Public Universities in Kenya. To achieve its objectives the study adopted a descriptive design with quantitative approach where semi-structured questionnaires were administered. The target population was 149 suppliers of goods and services to Kenyan Public Universities in the Rift Valley, Central, Nairobi and the Eastern Regions. The data collected was analysed using Statistical Package for Social Sciences to generate descriptive and inferential data. A regression model was developed to establish the strength and direction of the relationship between the variables and the following β coefficient value of negative 0.119. The study found out that pricing has an influence on the competitiveness of the business for public tendering opportunities and any increase in price negatively affects the competitiveness of the business. The study recommends that firms seeking to compete for tendering opportunities in the public sector should cite prices that are passive and within the market rates without compromising the excellence of the products being provided.

Keywords: Business, Public procurement, Public Sector, Chartered Public Universities, Pricing,

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INTRODUCTION

Governments across the globe are the basic providers of the essential services to their citizens. To be able to meet the demand for these services, governments purchase goods and services from the open market which is mostly dominated by suppliers in the private sector circles. This activity is commonly referred to as public procurement.

Consequently public procurement accounts for huge proportion of any government expenditure thus providing the largest single market in any economy. It is a competitive process that involves identification of competent suppliers, cutthroat bidding process and appraisal of bids with an aim of acquiring goods, works and services from the most qualified bidder and in the most efficient manner (Morschett, Swoboda, and Schramm-Klein, 2005).

Importantly, due to the changes in business approaches and the need for cheaper ways of doing business, governments have in the recent past opted for outsourcing for procurement services from the private sector. This has not only proved to be cheaper but also, time saving as each party can concentrate on doing what it does best (Burke, Carrillo and Vakharia, 2004) cements the essence of private-public partnership which has been identified as a key approach to national development and financial strength generation of a country.

The purchase of the various commodities in public procurement has to be done at the correct time and location for the express gain or use of government, company, business, or individuals by signing a contract (Burke, Carrillo, and Vakharia, 2004). This function is usually performed by the suppliers from whom the government buys its products from. As a result the growth of the suppliers in the private sector transacting business with the government is highly dependent on the revenues derived from transactions with the government (Harris and Ogbonna, 2001, Odhiambo and Kamau, 2003). Therefore, any underlying activities in the government procurement function have a direct impact on the growth of the suppliers.

The changing industry trends in the business environment such as increased competition, increasing size of bidders, shift in power structures and high proportion of cost of goods sold have made it paramount for the businesses to highly concentrate on their competitive strategy if they are to endure and thrive in the competitive market (Baier, 2008). To create relationship with customers, firms seeking to provide goods and services to the public sector must to conduct research to answer questions on how their target customers make their purchasing decision and whether they are pleased with what the organization provides to them in regards to the value exchanged by the buyer for the value offered by the seller.

In setting the prices for commodities, business owners are often required to balance various forces which revolve around drawing customers by offering attractive prices and making profits which is the major reasoning behind starting a business. Price decisions have an impact on the customer relationships, how good or bad the relationship is and haphazard pricing decisions alienate and confuse potential customers. This makes the pricing decision making process an important aspect in entrepreneurship.

Problem Statement

In the Kenyan economy public procurement accounts for 65% of government expenditure thus providing the largest single market in the economy. Suppliers of goods and services to the Public Universities have highly concentrated on pricing as the only strategy to survive competition. Thus the study was aimed at assessing and evaluating how the suppliers of goods and services can be relevant in pricing as a strategy for creating a competitive gain while competing for business opportunities in Public Universities in Kenya.

Objectives of the study

The specific objectives of this study was to explore the impact of pricing on competition in Public University Tendering Opportunities

LITERATURE REVIEW

Firms all over the globe need to clearly understand that with current trends in the world such as globalization, customers can easily locate and obtain the best of what they want, at a satisfactory price, anywhere it is in the world (Thomas, Miller, and Murphy, 2011). Competitive advantage for a company goes beyond harmonizing or surpassing what equal and rival firms are doing, but discovering what the clientele would like and then advantageously fulfilling, and even going above and beyond what the customers expected returns (Institute of Management Accountants, 1996). This is achieved by firms that combine their internal core competencies and abilities with those of their suppliers, customers and other external resources appropriately. It is generally characterized by choices and the decision made by the business manager towards the survival of the firm.

As competitive conditions grow ever more turbulent, the importance of developing and sustaining competitive advantage appears to be increasing exponentially. In essence companies have to be considerably more attractive to clients than their rival firms with an aim of developing a strategic position in the market. Price is the amount of money, which is sacrificed to obtain something and it still remains one of the most elements determining market share and profitability (Flamend, 2012).

Empirical orientation

According to Porter (2011) a firm that chooses to follow a cost leadership strategy has the objective of being able to realize its offer at the lowest possible cost. This is achieved by performing important value chain activities at a lower cost than competitors. Low-cost leaders must either have or develop some unique capabilities in order to achieve and sustain that position. Examples of such capabilities and resources are; a dominant market share, secured supplies of scarce raw materials or having developed more efficient linkages to suppliers. Companies striving for cost leadership in their industry usually look constantly for cost reductions and efficiency. The companies which follow a differentiation strategy see themselves as unique with regard to certain characteristics valued by buyers throughout the industry. The business can be able to lower their costs in a manner that it is able to offer competitive prices to their customers without compromising on the quality of the products supplied. Achieving low cost advantage can be achieved by application of the low cost advantage which the firm can achieve using the value chain analysis.

The relation between alternative prices that might be charges in the current time period and the resulting current demand is charged in a demand curve. In the ideal situation demand and price are inversely related and as a result the higher the price, the lower the demand and the lower the price the higher the demand (Broek, 2013). Each price that the company might charge will lead to a different level of demand and will therefore have different impact on its marketing objectives. A company may adapt the price of its product as a result of variation in these factors. Some price adaptation strategies include geographical pricing, price discounts and allowances, promotional pricing, discriminatory pricing and product-mix pricing (Schmeisses *et al*, 2008). The firms should consider various pricing options such as pricing its products to different customers in different locations and counties, modifications in the basic to reward customers for such acts as early payments by way of cash discounts, quantity, discounts, allowance and promotional pricing.

Pricing decisions have a great impact on the profitability of a business and when these decisions are made poorly the impact can be destructive (Hamel and Prahalad, 1994). When setting prices, business owners and decision makers should be familiar with the prices that are offered by the competitors however, they should not match them or beat them. Suppliers who implement a price leadership strategy are more dependent on sales volume as a driver of profitability. Suppliers focusing on price centered activities operate with lower unit margins but with fixed plant and equipment expenditures comparable to other competitive bidders. Therefore the objective is to continually achieve aggressive sales volume, as every unit sold would contribute critically in covering fixed costs. Since price centered activities are more focused in lower prices and higher sales volumes, this may also result in a merchandise mix with lesser variety and assortment and merchandize that is normally less differentiated from other bidders' assortments.

In selecting the final price, the company must consider additional factors, including psychological pricing, the influence of the other marketing mix element on price, company, pricing policies and the impact of price on the other parties. Sellers should consider the psychology of prices in addition to their economics. Many consumers use price as an indicator of quality (Schmeisses, Calusen, and Lukpwsky, 2008). When looking at a particular product, buyers carry in their minds a reference price that might have been formed by noticing current prices, past prices or the buying context. Seller often manipulates these reference prices in pricing their product. The final price must take into account the brands quality. In setting prices the business manager must also consider the reaction of other parties to the contemplated price such as the distributors, the dealer, the sales force, the competitors, the supplies and the government (Flamed, 2011).

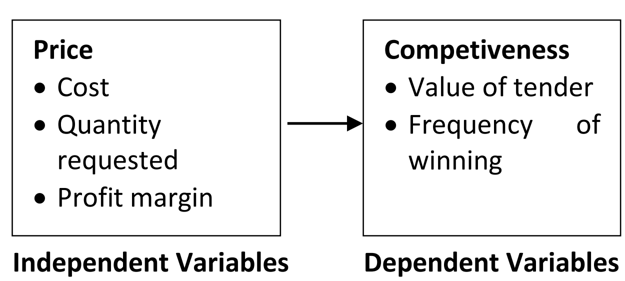
To create significance in the eyes of the customers, businesses must come up with high pertinent buyer offers. In a customer driven business dealing, the sellers must offer dynamic and innovative ways of meeting customer needs (Whalley, 2013). Companies usually do not set a single price but rather a pricing structure that reflect variation in geographic demand and costs. Market-segment requirements, purchasing timing order level, delivery frequency guarantees service contracts and other factors.

Every business manager has to make a decision on what it the firm wants to accomplish with its particular product offer. The clearer firms' objectives, the easier it is to set prices. A company can purser any of the six major objectives through its pricing which include the maximum current profit, the maximum current revenue, the maximum sales growth through penetration pricing, the maximum market skimming through skimming pricing, the product through quality leadership and other pricing objectives such as partial cost recovery, full cost recovery and social pricing (Whalley, 2013). Most firms determine their pricing model in a manner that would yield its target rate return on investment. Here the company determines the prices that would yield its target rate of return on investment. This is determined by Target return price is equivalent to unit cost added to desired capital multiplied by the invested capital divided by unit sales. Using this model, the company must be able to calculate the cost and estimate sales in order to be able to realize the required rate of return on the investment (Schmeisses, Calusen, and Lukpwsky, 2008). The company should consider determine the breakeven point at which costs and revenue are equal. The target sales must be above break-even points sales. This method ignores price elasticity and competition prices. The company needs to consider different prices and estimate the possible impact on sales volume and profits. In the determination of profit margins, it is important to know the difference amid capricious or variable and predetermined or fixed costs. Variable costs vary based on the quantity of product produced and are incurred as a direct result of producing the product.

According to Hamel and Prahalad, (1994), few of the advantages that businesses can gain from concentrated sourcing options are: partnership between buyers and suppliers that allows cooperation, shared benefits and long-term relationship based on high levels of trust, commitment from the supplier to invest in new facilities or new technology as per required by the their customers and in line with the customer's requirements and strategy, lower purchase price resulting from reduced operational costs, due to better knowledge of the buyers processes and by achieving economies of scale. Single sourcing strategy strives for a strategic partnership between a buyer and a supplier to foster a close collaboration and to optimize shared benefits. The general benefits of single sourcing, according to the Society of Management Accountants of Canada (1995), include higher quality, better services, more coordination in processes, supplies as per the requirements and specification of buyer, collaborative design, marketing and branding, and lower total costs.

Operational framework

The study adopted an operational framework which involved the identification of the value activities that directly affected competitive strategies employed by firms competing for public tenders and consequently establish how they can be leveraged to gain competitive advantage inform of increased productivity and increased profit margins.



MATERIALS AND METHODS

The study adopted a descriptive survey research design to generalize the findings to a larger population. This research targeted business firms in the private sector that compete and supply goods and services to Kenyan Public Universities in Rift Valley, Central, Nairobi, and Eastern Regions. The target population consisted of two hundred and thirty eight (238) suppliers of goods, works and services prequalified by Kenyan Chartered Public Universities.

Cluster sampling methods were applied mainly because the Universities and geographically distributed. Eight clusters were identified comprising of the eight regions in Kenya. Upon identification of the clusters, the researcher concentrated on four clusters with a concentration of more than three (3) Chartered Public Universities. These included; Rift Valley region with 7, Central Region with 3, Nairobi Region with 4 and Eastern Region with 3. This represented 77% of the total population of Chartered Public Universities in Kenya. The researcher then obtained lists of prequalified suppliers from the identified Universities with the highest bidded categories. Each category had at least 5 bidders and the researcher concentrated on the categories with more than 6 prequalified suppliers. To determine the sample size a formula that was first developed by Cochran (1963) and later simplified by Yohane (1967) (Mugenda and Mugenda, 2003) was used. The formula was

$$n = \frac{N}{1+N(\varepsilon)^2}$$

Where n is the sample size, N is the population size and e is the level of precision at 95% confidence level. Using this formula the researcher was able to establish a sample size of 149 firms. The researcher used questionnaires and face to face interviews for the purposes of gathering information from businesses that supply general office stationary to public Universities in Kenya. For clarity, face-to-face or telephone interview were used in part. Closed-ended questionnaires were used by large. A pretest was done to evaluate the clarity, objectiveness and relevance of the questionnaire used.

RESULTS AND DISCUSSIONS

The study established that 40% of the firms compete fairly, 20% of the firms negotiate prices with their suppliers, 17% offer low prices to win tenders, 3% lower the quality of the goods and 6% of the total respondents collide with officials to win tenders. This indicated that the public procurement system has a few challenges and it is not always fair and transparent.

The study established that price plays a critical role in the award of the public tenders with 38% agreeing and 50% of the respondents strongly agreeing. This high percentage is contributed to the fact that all customers are price sensitive.

The study established that firms take various aspects into consideration while setting prices such as transportation costs 18%, applicable taxes 7%, purchase price 14%, production costs 12%, market prices 12%, competitor prices 10%, substitute products, payment period 17% and other factors such as wages, communication and rent 11%.

The study established that the quantity of the goods and services plays a major role in setting price noting that when the quantity requested is high the suppliers are able to offer quantity discounts and enjoy economies of scale in transportation. 86% of the respondents indicated that the quantity requested is an important factor while setting prices for the goods and services that they offer.

Considering pricing as the predictor of business competitive in wining Public University tendering opportunities, a regression equation was generated as shown below.

Insert Table-1 Here

The un-standardized Coefficients show that the model has an intercept of .061 and a slope of -0.369. As such when considering pricing as the predictor of business competitiveness of business in getting Public University tender the regression equation will be as follows $Y= 0.061- 0.369 X_1$.

The pricing of goods and services had an inverse relationship with competitiveness implying that as the price of goods and services increases the business losses its competitiveness in public tendering opportunities.

CONCLUSION

On the impact of pricing in competing for public tendering opportunities the study established that pricing plays a significant role that is a public sector sourcing strategy. It is generally characterized by choice of appropriate set of suppliers; the decision is about the number of sources to use, primarily the choice between single or concentrated and multiple sourcing strategies (Burke and Vakharia, 2004). This complex choice is of great importance at a strategic level, especially in the context of specific competitive strategies of the retailers. The public sector uses which usually gives priority to the lowest bidder and in this context firms that come to bid for public tenders consider quoting low prices to win tenders.

The findings indicated that pricing plays a major role while competing for public tendering opportunities. There is need for firms to seriously consider pricing as a factor that can help them gain or maintain competitiveness in tendering opportunities and thus improving firms' profitability.

Recommendations

There is need for firms to seriously consider pricing as a factor that can help them gain or maintain competitiveness in tendering opportunities and thus improving firms' profitability. In setting prices bidders should

Set price it in a manner that does not compromise the quality of the goods and services being provided but in the same time the prices quoted are should be competitive and within the market rates.

Take into consideration the costs involved in supplying the goods such as the transportation cost, acquisition cost and the prices offered by their competitors.

While setting prices bidders should consider the quantity of goods requested. The quantity will be able to give guidance on the costs of acquiring the goods.

Firms must ensure they should set prices that will not scare away customers.

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Table-1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.935(a)	.874	.873	.881

The R^2 was 0.874. This indicated that 87% of variation in business competitive accounted for by the pricing of goods and services as shown in table below.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.061	.288		.213	.831
	Price goods and services	.-.369	.013	.935	27.833	.000

a. Dependent Variable: Competitive of the business